EUROPEAN COMMISSION

DIRECTORATE GENERAL

ECONOMIC AND FINANCIAL AFFAIRS

Athens, 21 December 2015

**Report on Greece's compliance with
the second set of milestones of December 2015**

This compliance note provides an assessment of the implementation of the 2nd set of milestones endorsed by the EWG as a basis for the ESM Board of Directors to decide to release the remaining €1bn of programme finance that remains from the decision of 14 August. It was compiled by European Commission staff, in liaison with ECB staff.

Following adoption of legislation in the evening of 15 December 2015, and of further actions up to 21 December, this report assesses that the received legislation and other actions taken by the authorities broadly complies with the list of 13 milestones (comprising of overall 29 sub-actions) endorsed by the EWG. These actions (i) adopt a significant part of the measures in the MoU due by October; (ii) ensure significant progress as concerns a number of actions which need to be fulfilled to complete the first review of the ESM programme.

While most measures have been delivered satisfactorily by 17 December, including through the adoption of an Omnibus bill by Parliament voted on 15 December evening, issues of substance remained to be finalised on two issues at the time of the report to the EWG sent on that date. This concerned the adoption of measures related to health (3.i and 3.ii) and to some Government Pending Actions (GPA) related to privatisation (12.ii), where additional steps were taken by 21 December. Regarding one GPA, the authorities provided a written commitment for its finalisation pending the resolution of some legal issues which the authorities should pursue as a matter of urgency ahead of the conclusion of the first review.

A significant part of the milestones concerns financial sector conditionality, following up on measures adopted as a basis for transferring ESM funds to the HFSF for bank recapitalisation purposes. Secondary legislation has been adopted concerning the protection of primary residences in the household insolvency law, including providing public sector support to the most vulnerable households. Primary legislation has been adopted to allow the servicing and transfers of non-performing loans to non-bank entities, and several key steps under the NPL strategy have been delivered. Finally, action has been taken to strengthen the governance of the Hellenic Financial Stability Fund (HFSF) and of the banking system. There are however two areas where follow up work is needed. First, the BoG still needs to appoint a single special liquidator, which is expected to be completed by end-January. Second, further efforts have to be made to develop a detailed implementation plan for the establishment of the Credit and Wealth Bureau with the support of an external consultant to be designated.

The authorities have decided to postpone to early next year the adoption of additional legislation submitted to parliament on December 14 without prior consultation with the institutions. At the same time, they intend to have further legislation adopted before the Christmas break to address urgent issues. The institutions are currently screening this additional legislation. There are some provisions which require further discussion and are in some cases not particularly urgent. The authorities need to commit not to legislate provisions which the institutions identify as potentially relevant for the objectives of the MoU.

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Action 1 - After presenting to KYSOIP, the Authorities will propose to the institution for discussion a concept note or policy paper outlining options for the key decisions on the design of the independent revenue agency, in order to ensure faster drafting and adoption of the legislation in time for the first review.

The authorities presented a concept note, outlining two main options for achieving an independent revenue agency. The scope in the legal framework for implementing the options – or a combination thereof –will be explored with the institutions in order to start drafting the legislation in January.

DONE

Action 2i – The Authorities will take measures to secure revenue collection: Adopt measures, including legislative if necessary, for cross-checking registrations of fuel storage tanks (fixed or mobile) to combat fuel smuggling;

The authorities presented an action plan with a schedule of actions, starting with a Joint ministerial decision. The aim is to create a database in the ministry of finance to allow cross-checking of information present in other database and information coming from statements of the economic operators. A Joint ministerial decision including provisions to this effect has been signed on 15 December. A more ambitious implementation timeline should be adopted.

DONE

Action 2ii - appoint a procurement committee to be able finalise the purchase of software for VAT network analysis to combat VAT carousel fraud.

A Ministerial Decision has been adopted on 15 December setting up procurement committee. The authorities have updated the roadmap on VAT carousel fraud on 16 December, stating the intention to conclude the purchase of the software for VAT network analysis by end January 2016.

DONE

Action 3i - Health: The Government will issue the Ministerial Decision on the implementation of hospital claw back;

The Ministerial Decree (MD) has been issued on 18 December (FEK 2758 of 18.12.2015). While the law fixes the claw back thresholds for the entire period 2016-2018, the MD covers only 2016. A new MD will have to be issued by next autumn to cover 2017. Furthermore, as the MD lacks details in many areas, further corrective actions may be needed in the coming months if the agreed objective is not achieved.

DONE

Action 3ii - issue a Ministerial Decision to revise downward the prices of diagnostics from private providers to align the spending to clawback ceiling.

A Ministerial Decision was issued on 21 December to revise downward the prices of diagnostics from private providers. The legislated reduction in prices shall contribute to reduce up to two/thirds of the excess costs. The authorities have committed to consider further price reductions by the end of 2016 if the additional structural measures announced (protocols and enhanced controls of prescriptions) will not be able to fully align spending to the claw back threshold. After evaluation, by end January 2016 and if necessary, the Greek authorities will elaborate and agree with the Institutions appropriate measures in order to guarantee the provision of private diagnostic services in remote areas (such as little islands) where public provision is not available.

DONE

Action 4i - Operationalize the HFSF selection panel for the appointments of all members and chairman including reaching agreement on a binding Terms of Reference for the selection process;

A proposal on binding terms of reference for the selection process of the panel members was agreed following a consultation process between the institutions and the authorities.

DONE

Action 4ii - having the HFSF submit to the EWG a proposal on the remuneration of Selection Panel members which has been agreed with the European institutions;

A remuneration proposal has been approved by the HFSF General Council. The Minister has submitted it to the EWG for its approval.

DONE

Milestone 4iii – agreeing a timetable for the next steps with the aim of completing appointments by end-December 2015.

The authorities and the institutions agreed on a timetable for the next steps, with the aim of completing the appointments to the HFSF Selection Panel by end-December 2015.

DONE

Milestone 5i - Household insolvency legislation: adopt secondary legislation on the financial assistance scheme for vulnerable households to facilitate the payments required under the household insolvency law.

The Joint Ministerial Decision was signed on 15 December (FEK B 2723 of 16.12.2015), after incorporating comments from the institutions. The General Secretariat of Commerce and Consumer Protection will be in charge of checking the applications mainly electronically while an inter-ministerial commission will examine complaints. Most vulnerable people (net income below affordable living expenses and property value below specific thresholds) will be required to pay a minimum contribution of 5 % of revenues below €8 000 and 10% of any revenues above. For a maximum period of three years, the State will pay every month the difference between the monthly instalment of the debt settlement plan and the contribution of the borrower, after confirmation by the bank of the borrower payment.

DONE

Milestone 5ii - The Bank of Greece will issue a decision on the procedure and criteria to be used for determining the maximum of borrower repayment capacity, the amount that creditors would have received in case of emergency enforcement and the potential prejudice to the creditors;

The decision has been signed by the Bank of Greece on 15 December (FEK B 2740 of 16.12.2015). It includes a template to assess the liquidation test. The decision provides guidance on the way to take into account fluctuations on the repayment capacity of the borrower in the future and on the procedure to determine the property value.

DONE

Milestone 5iii – provide a detailed implementation plan to establish a Credit and Wealth Bureau by end-June 2016 as an independent authority that will identify borrowers' payment capabilities for the facilitation of banking institutions.

A plan was sent to the institutions on 14 December, with a timetable for the establishing of the Credit and Wealth Bureau by end-June 2016. The plan contains the broader elements of the steps to be undertaken to establish the Credit and Wealth Bureau, but lacks details in many areas. A key element of the plan is the appointment of an external consultant who will propose the operational and organisational model for the independent authority and flesh out specific implementation steps by end April 2016.

DONE*, with further detailing of the implementation plan to be done as soon as the external consultant is selected.*

Milestone 6i – NPL strategy: adopt the relevant legislation enabling licensing and regulation for non-bank service providers and loan transfers, to be effective as of 1 January 2016. For loans secured by the primary residences as well as loans of SMEs and consumers, the implementation framework will be finalised in the context of the first review of the ESM programme;

The authorities adopted on 15 December legislation (Law 4354/2015 - FEK A 176) and regulation enabling the establishment of non-banks for loan servicing and transfers. Primary legislation for sale of NPLs does not include explicit carve-outs for household or SME debts. The implementation framework for these types of loans shall be finalised in the context of the first review of the ESM programme (end –January). The requirement that companies operating in NPL activities should have the objective of targeting economic growth and recovery should be removed.

DONE

Milestone 6ii – initiate preparatory work to update and amend the out-of-court debt resolution law;

A proposal was submitted to update and amend the out-of-court debt resolution law that includes the banks' obligation to respond to borrowers' requests and foresees the extension of the law to March 2017, whereas a working group is being set up to look into the issue of the tax incentives for the debtor.

DONE

Milestone 6iii – propose a coordination mechanism overseen by the Bank of Greece with a mandate to consider large debts to both private and public creditors and identify and execute specific NPL resolution action;

The authorities proposed a committee (Government and BoG) who will identify eligible debtors and prioritize cases and will hire an advisor to assess viability. Further discussions will be needed on the details in the coming weeks.

DONE

Milestone 6iv - submit a Presidential Decree to establish a debt information network and debt information centres;

A draft Presidential Decree has been signed by ministers and submitted to the Council of State on 15 December (GSG no: 2557/15-12-2015) whose opinion is needed before final adoption of the Decree.

DONE

Milestone 6vi - Bank of Greece to appoint a single special liquidator and introduce a performance-based remuneration scheme for liquidators in consultation with HFSF;

Following a request for proposal from Bank of Greece to appoint a single liquidator, three preferred bidders were selected on 6 December. They now have access to further data on resolution entities from Bank of Greece and will submit financial proposals. The final appointment is expected by the end of January 2016.

DONE*, formal appointment in January after financial proposals will be received*

Milestone 6vii - HFSF to nominate an executive board member and internal team dedicated to NPL resolution;

The HFSF Executive Board proposed an executive board member and an internal team dedicated to NPL resolution by nominating the CEO of the HFSF and the HFSF's Risk Management division as members of the team. The General Council of the HFSF approved this proposal.

DONE

Milestone 6viii – set up a new project structure for implementing and monitoring the NPL strategy including the establishment of a special coordinating secretariat and project management office at the Bank of Greece to support the Government Council for Private Debt Management.

The authorities adopted - with a formal endorsement on 15 December by the Government Council on Economic Policy (KYSOIP) - the new project structure for implementing and monitoring the NPL strategy. A Presidential Decree has been submitted on 15 December to establish a special coordinating secretariat. The Bank of Greece agreed on 16 December to set up a project management office within the Bank of Greece, to support the Government Council for Private Debt Management in coordination with the special coordinating secretariat.

DONE

Action 7 - The authorities will follow up as agreed with OECD and adopt or otherwise address 10 more recommendations of the OECD toolkit II on beverages and petroleum products in addition to those completed in the context of the first set of milestones.

In line with the commitment, the authorities have followed up on 18 OECD toolkit II recommendations out of which: a) Two (2) recommendations were adopted by the Omnibus law provisions (articles 42.1 and 42.2 of Law 4354/2015 - FEK A 176)), b) Two (2) recommendations were adopted by the issuance of two Joint Ministerial Decisions (ΔΕΦΚΦ Α 5025506 ΕΞ 2015/08-12-2015 - Government Gazette B' 2692 and 5852/139338/14-12-2015 - Government Gazette B' 2708), c) Two (2) recommendations were implemented by the authorities (by a non-extension of a previous procedure) and d) another 12 recommendations were assessed by the OECD as "no further action is required" on the basis of the clarifications and the additional data that the authorities provided. All the above recommendations provide for the simplification of provisions in relation to the production of beverages and to the manufacturing of petroleum products.

DONE

Action 8 - The authorities shall issue in agreement with the institutions a Ministerial Decision to (re-) convene the inter-ministerial committee for regulated professions.

By decision of the Minister of Finance (ΑΔΑ: ΨΑΕ5Η-00Η), the inter-ministerial committee for regulated professions was re-instated on 15 December. The role of the Committee is the preparation of recommendations for the removal of unjustified and disproportionate restrictions in the exercise of regulated professions.

DONE

Action 9i - On structural funds, the authorities will implement Law 4314/2014 on European Structural and Investment Funds, adopt all associated delegated acts and any other measures indispensable for the activation of the available funds and ensure the fulfilment of significantly-delayed ex-ante conditionalities;

The authorities have adopted all key steps related to Law 4314/2014 and associated delegated acts and other measures indispensable for the activation of the available funds, and taken steps to ensure the fulfilment of significantly-delayed ex-ante conditionalities. The draft PD on establishing a secretariat for digital strategy has been finalised and will be submitted to the Council of State on 21 December. Further steps will be adopted in the course of 2016 as envisaged in Law 4314/2014.

DONE

Action 9ii - For the 5 motorway concession projects and for the metro and waste water and solid waste projects, the authorities will: (a) draw an action plan with agreed timelines with concessionaries and/or contractors and including necessary actions to resolve bottlenecks; (b) agree with the institutions and set-up an inter-ministerial coordination committee to monitor the implementation of the action plan and to ensure the necessary decisions are taken timely.

For all envisaged projects, action plans have been drawn, and submitted to the Commission. A cabinet act establishing the inter-ministerial committee has been adopted on 11 December. The revised Concession agreement for "Moreas" motorway was submitted to Parliament on 12 December.

DONE

Action 10i - Spatial planning and forestry law: the Authorities will present the institutions with the proposals for potential improvements of the law 4269 on spatial planning;

Proposals for improvements of 4269 law were submitted. The objective is to correct some current overlapping legislation, to remove vagueness, to enhance coordination with the view to avoid conflicts and duplication of planning levels and to enhance legal certainty.

DONE

Action 10ii - agree with the institutions the content of and submit the Presidential Decree on forestry definitions.

The Presidential Decree has been finalised in agreement with the institutions. The PD has been submitted to the Council of State on 16 December (n.4358/16.12.2015)(. A confirmation letter from the Minister of Environment specifying that this PD will not affect existing forest maps will be sent to the Institutions in the coming days.

DONE

Action 11 - Energy: the Authorities will take irreversible steps (including announcement of date for submission of binding offers) to privatize the electricity transmission company, ADMIE, unless an alternative scheme is provided, with equivalent results in terms of competition and prospects for investment, in line with the best European practices and agreed with the institutions to provide full ownership unbundling from PPC.

The Authorities agreed with the institutions on a plan - endorsed by the Government Council on Economic Policy (KYSOIP) on 15 December - that will separate ADMIE, the electricity Transmission System Operator, from PPC, the incumbent. At the end of the process the Hellenic Republic will hold 51% of ADMIE, with a strategic investor (another TSO) holding 20%, and 29% on the stock market. The HR and the investor will co-decide on the CEO and the business plan, and the shares of ADMIE and of PPC held by the HR will be managed accordingly to the “unbundling within the State” principles contained in art. 9 of the relevant EU directive. The feasibility of the plan, as well as of any other alternative to achieve the agreed ownership structure, will be assessed by independent advisors, appointed after consultation with the Institutions. If no feasible solutions are identified, and the only available option to ensure full ownership unbundling and strategic investment is the sale of all PPC shares in ADMIE to private investors, the date for submission of binding offers for the sale of all PPC shares in ADMIE will be announced before the end of the first review of the programme, with a view to fully privatize ADMIE in 2016.

DONE

Action 12i - Privatisation: The Authorities will endorse a plan for the new privatisation fund so that it can be become operational as soon as possible in early 2016;

The Authorities agreed with the institutions a plan for the new privatisation fund in line with the agreement of the Eurosummit of 12 July 2015, which will monetize valuable Greek assets and make selective investments over the life of the Fund. The plan was endorsed by the Government Council on Economic Policy (KYSOIP) on 15 December. Preparation of detailed legal texts for the new Fund will commence with a view to it becoming operational in early 2016 and have it adopted by Parliament immediately thereafter. Technical assistance will, as required, support the technical teams to prepare the legal texts.

DONE

Action 12ii - complete the Government Pending Actions identified by the institutions for 2015Q4.

The Authorities committed to complete 18 actions needed to facilitate progress with different tenders which are ongoing, or at the preparation stage. Sixteen actions were done by 17 December. On two actions, namely the transfer of OTE shares to TAIPED and decision to regulate the proceeds between the train company (TRAINOSE) and the metro/bus (OASA), further technical discussions were necessary. Concerning the transfer of shares held by the Greek public sector in OTE, on 21 December Minister Tsakalotos confirmed in a letter to Commissioner Moscovici the Greek government's commitment to transfer these shares to TAIPED, once the legal issues associated with the agreement of the Hellenic Republic with Deutsche Telekom have been resolved. On this basis, the institutions expect that the government initiates immediately discussions on the transfer with the private shareholder in OTE according to the Shareholders' agreement and completes the legal steps swiftly, so that the transfer of OTE shares to TAIPED is done before completion of the first review. The authorities have adopted on 21 December a Ministerial Decision regulating the proceeds between TRAINOSE and OASA, in agreement with the institutions.

DONE*, with follow-up needed as concerns the transfer of OTE shares.*

Action 13i - The authorities will adopt a law to reform the unified wage grid, effective 1 January 2016, setting the key parameters in a fiscally neutral manner and consistent with the agreed wage bill targets and with comprehensive application across the public sector, including decompressing the wage distribution across the wage spectrum in connection with the skill, performance, responsibility and position of staff;

Following extensive discussions, the authorities approved on 15 December legislation (Law 4354/2015 - FEK A 176) that reforms the unified wage grid, which covers approximately two-thirds of the Greek public Administration. The reform is fiscally neutral and introduces, in connection with another forthcoming bill on evaluation and hiring of managers, a link between wages and performance, allowing higher performers to be promoted faster. It also introduces provisions that could allow for suspension of automatic wage increases for sustained underperformance. However, the provisions could have been more ambitious, especially with regard to tackling underperformance. Employees will be graded according to the new grid, taking into account the seniority rights matured in the last years when promotions were frozen, with a 4-year transition period to the new wage levels to ensure fiscal sustainability. Decompression will be improved through an increase in managerial allowances and by including higher functions (Secretary Generals) within the grid. A further step of the reform, in 2018, will be the transition to a system based on job descriptions. While fiscal neutrality is likely given, simulations based on the final text of the law need still to be received and assessed. To support this conclusion an amendment would be helpful that reinstates the initial provision that any additional benefit or compensation could only be introduced through amendments of this law (Art 26.3).

DONE

Action 13ii - commit to continue the attrition rule in 2016 while the ratio for the years 2017-2019 will be set in the MTFS 2016-19.

The approved 2016 Budget incorporates the 5:1 attrition rule for 2016. Further discussions are expected in the context of the review and of the definition of the MTFS, to ensure consistency of the wage bill with the need to achieve fiscal targets.

DONE

Annex 1: Actions to be taken by Greece ahead of the next disbursement (set of Prior Actions)

ANNEX 1

AA	Action	Status: Done or Pending
1	After presenting to KYSOIP, the Authorities will propose to the institution for discussion a concept note or policy paper outlining options for the key decisions on the design of the **independent revenue agency**, in order to ensure faster drafting and adoption of the legislation in time for the first review.	DONE
2i	The Authorities will take measures to secure **revenue collection**: (i) Adopt measures, including legislative if necessary, for cross-checking registrations of fuel storage tanks (fixed or mobile) to combat fuel smuggling;	DONE
2ii	(ii) appoint a procurement committee to be able finalise the purchase of software for VAT network analysis to combat VAT carousel fraud.	DONE
3i	**Health**: the Government will (i) issue the Ministerial Decision on the implementation of hospital clawback;	DONE
3ii	(ii) issue a Ministerial Decision to revise downward the prices of diagnostics from private providers to align the spending to clawback ceiling.	DONE
4i	Operationalize the **HFSF selection panel** for the appointments of all members and chairman including (i) reaching agreement on a binding Terms of Reference for the selection process;	DONE
4ii	(ii) having the HFSF submit to the EWG a proposal on the remuneration of Selection Panel members which has been agreed with the European institutions;	DONE
4iii	(iii) agreeing a timetable for the next steps with the aim of completing appointments by end-December 2015.	DONE
5i	**Household insolvency legislation**: (i) Adopt secondary legislation on the financial assistance scheme for vulnerable households to facilitate the required payments required under the household insolvency law.	DONE
5ii	(ii) The Bank of Greece will issue a decision on the procedure and criteria to be used for determining the maximum of borrower repayment capacity, the amount that creditors would have received in case of emergency enforcement and the potential prejudice to the creditors;	DONE
5iii	(iii) provide a detailed implementation plan to establish a Credit and Wealth Bureau by end-June 2016 as an independent authority that will identify borrowers' payment capabilities for the facilitation of banking institutions.	DONE*
6i	**NPL Strategy**: (i) adopt the relevant legislation enabling licensing and regulation for non-bank service providers and loan transfers, to be effective as of 1 January 2016. For loans secured by the primary residences as well as loans of SMEs and consumers, the implementation framework will be finalised in the context of the first review of the ESM programme;	DONE*
6ii	(ii) initiate preparatory work to update and amend the out-of-court debt resolution law;	DONE
6iii	(iii) propose a coordination mechanism overseen by the Bank of Greece with a mandate to consider large debts to both private and public creditors and identify and execute specific NPL resolution action;	DONE
6iv	(iv) submit a Presidential Decree to establish a debt information network and debt information centres;	DONE
6vi	(vi) Bank of Greece to appoint a single special liquidator and introduce a performance-based remuneration scheme for liquidators in consultation with HFSF;	DONE*
6vii	(vii) HFSF to nominate an executive board member and internal team dedicated to NPL resolution;	DONE

6viii	(viii) set up a new project structure for implementing and monitoring the NPL strategy including the establishment of a special coordinating secretariat and project management office at the Bank of Greece to support the Government Council for Private Debt Management.	DONE
7	The authorities will follow up as agreed with OECD and adopt or otherwise address 10 more recommendations of the **OECD toolkit II** on beverages and petroleum products in addition to those completed in the context of the first set of milestones.	DONE
8	The authorities shall issue in agreement with the institutions a Ministerial Decision to (re-) convene the inter-ministerial committee for **regulated professions**.	DONE
9i	On **structural funds**, the authorities will (i) implement Law 4314/2014 on European Structural and Investment Funds, adopt all associated delegated acts and any other measures indispensable for the activation of the available funds and ensure the fulfilment of significantly-delayed ex-ante conditionalities.	DONE
9ii	(ii) For the 5 motorway concession projects and for the metro and waste water and solid waste projects, the authorities will: (a) draw an action plan with agreed timelines with concessionaries and/or contractors and including necessary actions to resolve bottlenecks; (b) agree with the institutions and set-up an inter-ministerial coordination committee to monitor the implementation of the action plan and to ensure the necessary decisions are taken timely.	DONE
10i	**Spatial planning and forestry law:** the Authorities will (i) present the institutions with the proposals for potential improvements of the law 4269 on spatial planning;	DONE
10ii	(ii) agree with the institutions the content of and submit the Presidential Decree on forestry definitions.	DONE
11	**Energy:** the Authorities will take irreversible steps (including announcement of date for submission of binding offers) to privatize the electricity transmission company, ADMIE, unless an alternative scheme is provided, with equivalent results in terms of competition and prospects for investment, in line with the best European practices and agreed with the institutions to provide full ownership unbundling from PPC.	DONE
12i	**Privatisation:** The Authorities will (i) **endorse a plan for the new privatisation fund so that it can be become operational as soon as possible in early 2016**;	DONE
12ii	(ii) complete the Government Pending Actions identified by the institutions for 2015Q4.	DONE*
13i	The authorities will (i) adopt a law to reform the **unified wage grid**, effective 1 January 2016, setting the key parameters in a fiscally neutral manner and consistent with the agreed wage bill targets and with comprehensive application across the public sector, including decompressing the wage distribution across the wage spectrum in connection with the skill, performance, responsibility and position of staff;	DONE
13ii	(ii) commit to continue the **attrition rule** in 2016 while the ratio for the years 2017-2019 will be set in the MTFS 2016-19.	DONE

*** (follow up needed)**